

Message Text

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ACTION EB-07

INFO OCT-01 AF-06 ARA-06 EUR-12 EA-07 NEA-10 ISO-00 FEA-01

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01

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FM AMEMBASSY MUSCAT

TO SECSTATE WASHDC 1707

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY CARACAS

AMEMBASSY CAIRO

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY MANAMA

AMEMBASSY PARIS

AMEMBASSY QUITO

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

C O N F I D E N T I A L MUSCAT 1419

E.O. 11652: GDS

TAGS: ENRG MU

SUBJECT: NEW OMAN OIL AGREEMENT

REF: (A) MUSCAT 928 DTD 12/31/74

(B) MUSCAT 1151 (NOTAL)

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1. THE OMAN GOVERNMENT HAS RECENTLY SIGNED A NEW AGREEMENT

ON OIL PRICES WITH THE SOLE PRODUCING COMPANY, PETROLEUM DEVELOPMENT (OMAN). THE POSTED PRICE HAS BEEN RAISED TO \$12.505 A BARREL FROM \$12.298, WHILE THE BUY-BACK PRICE FOR PARTICIPATION OIL HAS NOW GONE TO \$11.63 FROM \$11.42. (ALL PRICES REFER TO 34 DEGREE API CURDE.) THE NEW PRICES ARE RETROACTIVE TO OCTOBER 1.

2. TAX RATE REMAINS AT 65.75 PERCENT AND ROYALTY RATE STAYS AT 16.57 PERCENT. THE BUY-BACK FOR SHELL--PRIMARY PRIVATE HOLDER IN PD(O)--REMAINS AT 93 PERCENT OF POSTED PRICE. IN EXCHANGE FOR OMANGOV'S HOLDING TAX AND ROYALTY RATE CONSTANT, PD(O) AGREED TO PAY A "MAKEUP" PAYMENT OF \$1.379 PER BARREL FOR EQUITY CRUDE ONLY, RETROACTIVE TO OCTOBER 1.

3. PD(O) OFFICIALS ESTIMATE THAT THE NEW PRICING FORMULA WILL GIVE OMANGOV AN AVERAGE NET TAKE OF ABOUT \$10.30 A BARREL. ASSUMING PRODUCTION OF 380,000 BARRELS A DAY IN 1976, GOVERNMENT OIL REVENUES NEXT YEAR COULD BE AS HIGH AS \$1,428,000,000. THE OMANGOV WILL GAIN ADDITIONAL REVENUES OF \$31 MILLION FOR 1975 ON BASIS OF NEW AGREEMENT.

4. PD(O) OFFICIALS NOTED THAT BARGAINING WAS LESS SMOOTH THAN THEY HAD EXPECTED. NEW AGREEMENT MAY BE REVISED IN LESS THAN A YEAR, AS OMANGOV IS NOW CLAIMING THAT WORLD OIL PRICES ARE RISING AGAIN AND THAT INCREASES IN POSTED AND BUY-BACK PRICES WERE TOO SMALL FOR A VIABLE LONG-TERM AGREEMENT. OUR DISCUSSIONS WITH PD(O) AND OMANGOV OFFICIALS INDICATE THAT THE OIL COMPANY FOUGHT TO HOLD DOWN PAYMENTS ON EQUITY OIL ON GROUNDS THAT COMPANY NEEDED SUBSTANTIAL ADDITIONAL INTERNALLY-GENERATED CAPITAL FOR EXPLORATION IN SOUTHERN OMAN. OMANGOV, ON THE OTHER HAND, BELIEVES PD(O) HAS BEEN DRAGGING ITS HEELS IN EXPLOITING HEAVY CRUDE RESERVES IN THE SOUTH AND THE GOVERNMENT MAY BE PLANNING TO CONCEDE PORTIONS OF DHOFAR TO OTHER OIL COMPANIES FOR EXPLORATION.

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